

LYNCHBURG CITY COUNCIL

Agenda Item Summary

MEETING DATE: **June 22, 2004, Work Session**

AGENDA ITEM NO.: 8

CONSENT:

REGULAR: **X**

CLOSED SESSION:

(Confidential)

ACTION: **X**

INFORMATION:

ITEM TITLE: **City Employee Pay Increases in FY 2005**

RECOMMENDATION: Authorize the utilization of resources for City employee raises as outlined in the attached proposal.

SUMMARY: The approved FY 2005 Budget includes resources to grant City employees pay increases equivalent to 2% across the board and to make selective adjustments to minimum pay for positions experiencing significant deviation from market, turnover, or difficulty recruiting. Providing a standard across the board increase with selective adjustments to minimum has been the typical practice over the years. With the adoption of the City Compensation Philosophy and the action taken regarding Police Department pay, and contemplated for the Fire Department, I feel that another approach is in order for FY 2005. This will be a transitional step to better position the organization to move to a pay for performance program in FY 2006.

The attached proposal would still make the adjustments to minimum but would do so wherever they were significantly different from market and would provide individual employee increases beyond that through an increase to base pay related to years of service with the City. Whereas adjustments to minimum tend to reward newer employees, providing adjustments based on a fixed amount for each year of service tends to reward longer term employees and lower paid employees. The "average" employee with an annual salary of \$30,000 and ten (10) years of experience would receive an increase of exactly 2%. As mentioned earlier, employees with documented less than satisfactory performance would receive no increase.

I believe that this approach is consistent with the Compensation Philosophy (copy attached) and with the action taken with respect to Police Department salaries. While it will not please all employees and its effectiveness is limited by a lack of resources, it will address issues such as compression that have been raised by the workforce.

PRIOR ACTION(S): June 8, 2004 Adoption of the FY 2005 Budget provided resources for a salary increase for both city and Schools employees.

FISCAL IMPACT: The cost of implementing either the recommended proposal or the straight 2% increase with adjustments to minimums is approximately \$1 million. Resources are available in the approved FY 2005 budget for either alternative.

CONTACT(S): Kimball Payne, Margaret Schmitt

ATTACHMENT(S): City of Lynchburg Compensation Philosophy
Pay adjustment proposal

REVIEWED BY: lkp

CITY OF LYNCHBURG COMPENSATION PHILOSOPHY

(Adopted by City Council, November 25, 2003)

Inherent in City Council's vision of responsive, effective local government, the **mission** of the employees of the City of Lynchburg is to deliver services to City residents, workers and visitors in an efficient, effective and equitable manner and to build a stronger community.

The **goal** of the City of Lynchburg's compensation program is to attract, reward and retain employees that are representative of the community and fully able to deliver services at acceptable levels.

The City will develop and maintain a **Pay Plan** guided by the following **principles**:

- Public service is an admirable occupation and the employees who have dedicated themselves to the service of the City's residents are to be valued.
 - City employees shall be compensated in ways that reflect market competitiveness and recognize performance in alignment with organizational goals.
- Each City employee is a unique individual, with his or her unique and particular needs and aspirations. No compensation program can accommodate every individual circumstance. Rather, the intent is to have a program that reasonably provides choices and the flexibility to assist employees in achieving their goals, while encouraging individual responsibility and reflecting the prevailing market environment.
- The Pay Plan must be fiscally responsible and affordable; it will always be constrained by resource availability.
- No pay plan is perfect; every variable cannot be addressed equally and to the satisfaction of all. Choices and trade-offs based on the organization's values, goals and priorities must be made.
- The Pay Plan shall be rational and based on clear guidelines that can be easily understood and communicated.
- Differences in compensation for reasons other than job classification, performance, qualifications, longevity or legal requirements are inappropriate. Specifically, there shall be no discrimination related to non-job related factors such as race, color, national origin, religion, gender, age, disability or political affiliation.

The City's compensation program will:

- balance salary and non-salary benefits to achieve competitive total compensation.
- assure that like jobs are valued with comparable methodology and are treated similarly in terms of base pay.
- manage pay ranges with respect to the relevant market for comparable work.
- promote individual contributions and high levels of performance that advance organizational and departmental missions and outcomes.
- consider relevant market data, internal equity, knowledge, skills and abilities, length of service in the job and demonstrated performance in setting individual pay.

- attract applicants with the basic skills needed to perform the job and the ability to quickly learn the specific requirements of the position.
- allow new employees with relevant experience (both quantitative and qualitative) and demonstrated competence to be hired at a pay rate above the range minimum.
- ensure that the pay of current employees with experience similar to new employees is comparable (assuming satisfactory performance).
- support **alternate pay systems** based on unique business needs that are, to the greatest extent possible, consistent with the overall compensation philosophy.
- be fiscally constrained.

Market Comparisons

The “**market**” is defined as other employers considered being in competition for personnel similar to those employed by the City. Ideally, market analysis will compare pay and benefits in other organizations of similar size, cost of living, service delivery requirements and organizational structure. Generally, this will include Virginia’s First Cities, local governments in the region, and private sector employers as appropriate.

Pay Plan Adjustment

When considering pay plan adjustments, no single measure will be considered in isolation. Management judgement is important.

Evidence that the pay ranges for specific positions or job categories need to be reevaluated will be demonstrated by significant variance from the market, excessive turnover, and/or difficulty recruiting.

Advancement Through the Pay Range

It is a goal to move the compensation program to include **performance based increases**. Employees should be encouraged to make a performance difference, either individually or through teams, in which results are more important than entitlements (i.e. seniority, hierarchy, or the expectation of additional pay for changing responsibilities).

Individual contributions should serve as a significant factor in determining individual compensation. Higher performance should be rewarded by quicker advancement in the relevant pay range. Minimally acceptable performance should not be rewarded although efforts should be made to keep pay comparable to market. Performance at less than an acceptable level should result in no advancement in pay and requires management intervention to assist the employee in achieving satisfactory performance. Sustained and documented unsatisfactory performance is grounds for demotion or dismissal.

Advancement through a pay range may reflect **longevity** (length of service) but should be primarily tied to **performance** (effectiveness, demonstrable skills and competencies that produce outcomes/results contributing to the achievement of the organization’s mission and goals). Longevity may also be recognized through indirect compensation (such as the carryover of increased annual leave balances, higher deferred compensation matches, etc.).

A Positive Work Environment

Compensation is only one determinant of employee satisfaction and may be secondary to the work itself and the work environment. Accordingly, the City will strive to maintain a **positive work environment** characterized by:

- a focus on employee safety
- adequate work space
- appropriate equipment
- effective management practices and positive management attitude
- consistent, effective and efficient policies and procedures
- workforce training and development
- opportunities for selection and promotion from within
- recognition for sustained high performance or significant achievement through monetary and non-monetary measures

Proposal: Implement a three step process that adjusts the pay structure and individual pay to set a baseline and position the organization to implement performance based pay increases as of July 1, 2005.

1. Align the pay range minimums with the market average minimums by assigning each position to a pay grade that has a minimum that is within 5% of the market average minimum for the specific job.
2. Adjust individual pay so that all employee pay is at the minimum of the assigned range.
3. Award each employee a base pay increase equal to \$60 for each full year of full-time employment with the City as of July 1, 2004, limited to the maximum of the assigned range.

Note: The proposal does not apply to the police department, sworn and civilian, LynCom and the Public Works Associate (PWA) alternate pay plan: the sworn officers would receive a 2% across the board increase, alternate pay adjustments will be implemented in the police department civilian workforce and LynCom in accordance with previous City Council action and the PWA plan includes specific increases based on technical skill attainment.

Reasoning: The overall goal of the Compensation Philosophy is to “attract, reward and retain employees that are representative of the community and fully able to deliver services at acceptable levels”. Achieving this goal requires a balance of competitive pay ranges, as represented by the range minimum, and total employee compensation that recognizes multiple factors including relevant market data, performance and length of service.

Despite targeted pay range adjustments, many City positions are currently in pay ranges that are well below the market average minimums. The proposal addresses pay range competitiveness for all positions by assigning positions to pay grades with a minimum that is within 5% of the market average minimums. While this action aligns all ranges to reflect the relevant market average minimum the subsequent pay changes that ensure all employees earn at least the minimum create a situation where employee pay tends to be compressed around the minimum of the range.

To help alleviate the compression around the minimum of the range, the proposal awards increases of \$60 per full year of service to spread employee pay across the pay range. The advantages to the proposal are that it uses the same principles that were used to adjust sworn police officer and LynCom pay, albeit on a smaller scale, and it recognizes the need for competitiveness at the range minimum while demonstrating the value of a workforce with long term service.

In an ideal situation, demonstrated performance and actual results, perhaps coupled with years of service, would be used to measure the value an employee brings to the organization. However, City-wide performance management is relatively new and, at this time, years of service is the most objective measure available. A key component of the proposal is that these actions set a baseline of employee pay spread across at-market ranges so we can confidently transition to future increases linked to demonstrated performance. The actions position the City to implement performance based pay increases beginning July 1, 2005, as allowed by available resources.

As a reference point, the “average” City employee has 10 years of service and a salary of about \$30,000. For this “average” employee, \$60 per year of service is a \$600 increase or the same as a 2% across the board increase.